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JPRS L/8406

18 April 1979

TRANSLATIONS ON JAPAN
(FOUO 13/79)

ASIA

U. S. JOINT PUBLICATIONS RESEARCH SERVICE

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POLITICAL AND SOCIOLOGICAL

OHIRA-NAKASONE MEETING DRAWS ATTENTION

Tokyo MAINICHI DAILY NEWS in English 28 Mar 79 p 4

[Article by Takehiko Takahashi: "Nagatacho Doings"]

[Text]

Prime Minister Masayoshi Ohira and Yasuhiro Nakasone met for a 2½-hour talk on March 22 at night. Besides Ohira and Nakasone, the meeting was attended by two mutual friends, together with Chief Cabinet Secretary Rokusuke Tanaka and Prime Minister Ohira's son-in-law and secretary Morita.

It is certain that Prime Minister Ohira was the one who invited Nakasone to this meeting. The present political situation does not seem to have been taken up at this meeting although Nakasone praised the instructions that Ohira gave at the graduation ceremony of the Defense Academy.

Nevertheless, the fact that Ohira and Nakasone had a lengthy talk together has great political significance.

In the last LDP presidential election, the one whom Nakasone criticized most severely was Ohira. After the start of the Ohira administration, the Nakasone faction has acted in concert with the Fukuda faction as an anti-Ohira influence.

There must have been a deep reason why Nakasone, the boss of that Nakasone faction, was invited by Prime Minister Ohira. In the past, immediately after the formation of the Sato administration, Nakasone was in an antimainstream position.

But shortly afterward, Nakasone entered the cabinet as Minister of Transport and later became director general of the Defense Agency. It is said that as the person responsible for the finances of the Nakasone faction, he could not continue to remain forever in an antimainstream position.

When Kakuei Tanaka and Takeo Fukuda competed for the presidency of the Liberal-Democratic Party, Nakasone supported Tanaka. Although from the same constituency as Fukuda, Nakasone probably could not act in any other way.

Later, Nakasone became the Minister of International Trade and Industry in the Tanaka Cabinet, LDP secretary general under the Miki Cabinet, and chairman of the LDP's executive council under the

Fukuda Cabinet. He thus continued to occupy a place in the sun, but those critical of Nakasone nicknamed him "Weather Vane."

Pres. Election

Whether or not Nakasone would run in last year's party presidential election was watched with attention. Urged by members of his faction, he began activities with his sights set on Ohira. The votes that he obtained in the election were less than had been anticipated.

There is no doubt but that Nakasone is aiming for the premiership. The choice of the strategy is difficult. The most effective method would be to obtain the cooperation of the Ohira faction and also of the Tanaka faction. The opposite strategy would be to secure the cooperation of the Fukuda and Miki factions. Nakasone is

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probably deliberating at present on which of the two possibilities is greater.

To cajole Nakasone, who stands in such a position, with sweet words was a necessary strategy for the Ohira administration in preventing Nakasone from becoming a hard antimainstream influence.

If the Nakasone faction's antimainstream character weakens, the Fukuda faction will become isolated. The Ohira administration will then become stabilized, so Prime Minister Ohira reasons.

This is probably why Prime Minister Ohira invited Nakasone to a meeting with two mutual friends who were prevailed upon to remark, "The birth of the Ohira administration was a good thing. Next we would like to see the emergence of a Nakasone administration."

It is reported that Prime Minister Ohira only grinned as this statement was made. It was bound to please Nakasone. This was probably why, at Nakasone's suggestion, Ohira and Nakasone inscribed six fans together at the meeting.

In order to assure the long-range stability of the Ohira administration, Prime Minister Ohira considers it necessary not only to transfer Nakasone into a mainstream faction but also to seek his cooperation on a more immediate matter. This concerns the handling of LDP Secretary General Kunikichi Saito.

Prime Minister Ohira at first wanted to appoint Zenko Suzuki as the secretary general but this was not realized due to the opposition raised by the Fukuda and Nakasone factions. Later Ohira suggested the name of the present Secretary General Saito. Eventually Saito became the secretary general but with "for the time being" attached as a condition.

"For the time being" means until a conclusion is reached by the LDP's Research Commission on Fundamental Problems in regard to "the president's faction and the problem of the secretary general."

In charge of this problem is Ryutaro Nemoto who has a close relationship with Nakasone. If the Nakasone faction were to advocate strongly that "the secretary general should not be from the president's faction," it will become necessary for Secretary General Saito to be replaced by someone else. This will shake the footing of the Ohira administration.

It will be interesting to see in what way Nakasone will react to the strategy of Prime Minister Ohira who is devoting the greatest care to the maintenance of his administration.

(The writer is an adviser to The Mainichi Newspapers and former chief editorial writer).

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POLITICAL AND SOCIOLOGICAL

'MAINICHI' ON FIRYUBIN REJECTION OF JAPANESE DIET PROTEST

Tokyo MAINICHI SHINBUN in Japanese 26 Mar 79 morning edition p 3 OW

[Text] After it was discovered that a Soviet military buildup was underway on two of the four Soviet-held northern islands--Kusashiri and Etorofu--the DIET adopted "resolutions concerning the promotion of the settlement of the northern territories issue" and wanted them delivered to the Soviet authorities. However, the Soviet authorities refused to accept them on grounds that the so-called northern territories issue was nonexistent. They said that it was tantamount to a malicious act of interference in Soviet domestic affairs for Japan to make a fuss over this issue and that the Soviet Union had no interest whatsoever in it. Details of how the Soviet Union rejected the Japanese DIET resolutions were belatedly revealed on 25 March.

Earlier, on 5 February, the government had demanded, through Soviet Ambassador to Japan Polyanskiy, that the Soviet Union stop deploying additional troops and building military establishments on the two islands. The Soviet ambassador rejected the Japanese Government demand and called it an "act of interference in domestic affairs."

The details of the Soviet authorities' reaction show that since the signing of the Japan-China Treaty of Peace and Friendship last summer, the Soviet Union has further strengthened its stand that "there exist no unresolved postwar problems between Japan and the Soviet Union."

The DIET resolutions were adopted on 20 and 21 February respectively by the House of Representatives and the House of Councilors with the approval of all parties except the Communist Party.

The lower house resolution said: "From the viewpoint of promoting peaceful and friendly relations between Japan and the Soviet Union, it is regrettable indeed that the northern islands of Habomai, Shikotan, Kunashiri and Etorofu--inherent Japanese territories--have not yet been returned and, to make the matter worse, the Soviet Union has lately been building military

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establishments on Kunashiri and Etorofu." It then called on the government to: 1) Demand the Soviet Union to immediately stop its military action which goes against the spirit of peaceful settlement of the northern territories issue; and 2) Try to resolve the territories issue at an early date and strive to establish durable relations of peace and friendship with the Soviet Union by concluding a peace treaty.

The upper house resolution read about the same as the lower house resolution with the exception that the upper house demanded the removal of not only military but also other facilities (such as fishery plants) from the two islands.

Acting upon these resolutions, the government on 26 February tried to deliver them to the Soviet Foreign Ministry through Ambassador to Moscow Uomoto. Uomoto met Vice Foreign Minister Firiyubin and tried to deliver the resolutions to him. However, Firiyubin refused to talk with him, saying, "I have learned from press reports that the Japanese DIET has adopted resolutions but let us not waste our time with this issue."

Firiyubin reportedly told Uomoto: 1) The so-called northern territories issue is nonexistent and he has no intention of talking about a nonexistent issue; 2) Japan is making a big fuss over this issue even though it runs against statement by a Japanese leader that "we want to smoothly develop Japanese-Soviet relations," and; 3) This fuss is not compatible with developing good-neighborly and friendly relations between the two countries and constitutes a malicious act of interference in domestic affairs.

When Uomoto asked Firiyubin to accept the resolutions, saying, "they are short and will not take long to read, so please let me carry out my home government's instructions," the Soviet vice foreign minister said, "I have no intention of accepting the resolutions." Firiyubin reportedly told Uomoto: The resolutions are addressed to the Japanese Government and we have nothing to do with them. Japan may be interested in this issue but the Soviet Union is not in the least interested. Firiyubin is said to have refused to even listen to the resolutions. This is the first time details of how the Soviet Union rejected and "killed" the DIET resolutions have been revealed.

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'ASAHI' COMMENTS ON SINO-JAPAN WORKING-LEVEL TRADE

Tokyo ASAHI SHINBUN in Japanese 19 Mar 79 morning edition p 5 OW

[Editorial: "A Restructuring of Japan-China Trade is Urgently Needed?"]

[Excerpts] Chinese vice minister of foreign trade Liu Xiwen has arrived in Japan to discuss expansion of Japan-China trade with our government and business officials. Trade negotiations this time will center on extending and expanding the long-term trade agreement signed between the two countries last February and on financing problems. It is hoped that the concerned authorities of the two countries will demonstrate a spirit of reciprocity in settling problems and put Sino-Japanese trade on a path of steady growth.

The volume of two-way Japan-China trade last year reached 5 billion dollars. From late last year to January this year, various negotiations on exporting plants to China, including one on equipment for the Shanghai Baoshan Iron and Steel Complex, were wound up, bringing the contract total to 3.7 billion dollars.

But, in late February, just before these contracts were to go into effect, the Chinese National Machinery Import and Export Corporation, The Importer, sent telegrams to Japanese firms saying, "the PRC Government has not yet approved the contracts because the credit question remains unsettled between our two countries." This threw cold water on overenthusiastic Japanese firms. As of 10 March, the total of contracts on which China had sent withholding notices reached 2.7 billion dollars.

Speculation is rife as to why China has caused this state of affairs. But, judging from statements by high-ranking Chinese Government officials and Japanese business officials, the direct cause can be traced to the gap between trade negotiations and the payment issue. At the same time, it cannot be overlooked that China's need to review its economic development plan may be behind the complications. In China, priority was given to the iron and steel industry as a key to industrial development. But, it has

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been pointed out that shortcomings of this disproportionate and "isolated priority" have begun to manifest themselves. One such example is Wuhan Steel Mill. There a hot rolling plant and a silicon steel plate plant were built with the help of Nippon Steel Corporation, but these plants are not in full operation due to a power shortage, thus barring full returns from the investments.

According to Vice Premier Li Xiannian, China has come to notice these shortcomings and "is now reviewing major construction plans to make adjustments." However, this does not mean a modification of the "four modernizations" line. It should rather be taken as a realignment of priorities to achieve an overall balance with a view to making plans more effective. It is naturally expected that as the overall economic plan is reviewed, plant imports from Japan will also be reviewed.

People in some quarters in our country have long sounded an alarm about China's ability to pay. China has lost no time in noticing this problem and beginning to take remedial steps. This awareness will assist the sound development of trade.

Needless to say, Japan's financial cooperation with China is the key to solving payment problems. In this connection, Japan has come up with three ways of financing. First, Japan proposed to finance plant exports by deferred payment. Last August and September Japan Export-Import Bank and the People's Bank of China held talks to discuss this proposal, but the talks fell through over the issue of whether payments should be made in yen or in dollars. At the current talks, Japan will propose as a compromise that payments be made half in yen, half in dollars.

The second method is dollar loans by Japanese city banks. When Komoto, then Miti Minister, visited China, Chinese officials showed interest in this method. The negotiations on this method of financing are now in the final stage. According to the Japanese proposal, 22 Japanese banks will provide 2 billion dollars in loans. In addition, 6 billion dollars will be advanced as stopgap loans. The interest on the loans will be based on the Eurodollar interest rate (11 percent per annum). Although the interest rate is rather high, this method, if agreed upon, will lead to the activation of withheld contracts.

The third method is the Export-Import Bank's so-called "No. 8 loans" available for specific purposes such as resources development and loans from the Overseas Economic Cooperation Fund. These loans will be made in yen, and their interest rates will be relatively low. But they are available only for limited purposes.

On the other hand, European countries are very positive in financing. In the British Government, there is an agency called the Export Credit Insurance Bureau which insures the loan risks of city banks and subsidizes interest on loans. This enables British banks to make large loans to China. Our country should study this practice.

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As a result of Sino-U.S. normalization, U.S. firms are expected to enter the Chinese market. On the other hand, Secretary of Treasury Blumenthal told Japanese Finance Minister Kaneko that "he is afraid that Japan may provide excessively favorable treatment to China in terms of interest rates." Such fears stem from misunderstanding. But we cannot overlook the fact that such fears are prevalent in Europe and the United States. The scale of China's economic construction is so huge that even massive financing cooperation provided by the United States, European countries and Japan will not be sufficient. To diversify loan risks and to allay fears in other countries, it may be advisable for Japan to stand in the van of international cooperation as suggested by the president of Pan American.

In some quarters in the United States, the concept of a China development fund has been suggested. The United States has requested that the question of China trade be included on the agenda for the Tokyo summit talks. Japan should not miss this opportunity to exchange frank opinions with the leaders of other major industrial nations.

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'YOMIURI' WELCOMES CONCESSIONS AT GENEVA NORTH-SOUTH DEBATE

Tokyo THE DAILY YOMIURI in English 20 Mar 79 p 2 OW

[Editorial: "Common Fund Closer"]

[Excerpts] The difficult problem of establishing a common fund to stabilize prices of primary products, which stirred heated debate in the past between the North and the South, is heading toward solution in Geneva negotiations.

Welcome Concessions

We were very impressed by the concessions made by the South at Geneva this time. The South showed realism and flexibility where once it voiced only angry rhetoric and made proposals considered fantastic and unacceptable by the North. However, the North also made several concessions. And this is creating a pattern for useful dialog and negotiations between the richer and poorer nations.

Although strongly opposing the Common Fund three years ago, Japan later switched to positive support when the South's position softened and this country began to attach more importance to its relations with ASEAN [Association of Southeast Asian Nations].

The fact that Japan played a leading role in bringing about a compromise is highly appreciated by ASEAN member states, and this will be beneficial in promoting greater friendship between our country and ASEAN.

Trial-Error Approach

It is not yet clear how far the Common Fund to be established on the basis of this accord will go toward stabilizing prices of primary products in the South. We must be realistic and proceed on a trial and error basis. After all, the problems between the North and South cannot be solved by one action alone.

But with the Common Fund problem virtually out of the way, UNCTAD in Manila can concentrate on a wide range of other problems. These include protectionist trade by advanced countries, protection of the interests of the South

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in Tokyo round negotiations, expansion of ODA (Official Development Aid) and a stronger voice by the South on international currency problems.

We hope that these and other problems can be overcome by the South and North based on their experience in solving the Common Fund problem. For instance, the South desires that the North promote international specialization with labor-intensive industries being transferred to the South. This makes good sense.

There have been suggestions that this specialization of industries be placed on the agenda of the Tokyo economic summit. Japan's attitude toward this will be watched carefully by the South.

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'ASAHI' RAPS OHIRA'S 'NEGATIVE' STANCE IN SCANDAL PROBE

Tokyo ASAHI EVENING NEWS in English 23 Mar 79 p 2 OW

[Editorial: "Premier's Responsibility"]

[Text] Suspicions over the introduction of aircraft made by McDonnell-Douglas Corp., Grumman Corp. and Boeing Co. keep on mounting. In the resumption of witnesses by the Budget Committee of the House of Councillors, we further received the impression of the possibility of politicians intervening in the purchase of the aircraft. The clarification of facts by government itself is sought more than ever before.

The testimonies given by Hachiro Kaifu, vice-president of Nissho-Iwai Co., and Kunio Arimori, former acting section chief of that firm's aircraft department, in the resumption of witnesses served to deepen suspicions that there might have been unsavory political maneuverings and movement of money behind the sale of aircraft.

Frankly, we have to point out that the Diet's method of getting to the facts lacks punch. This provides a sharp contrast with the enthusiasm the Diet showed in cleansing politics and inquiring into the Lockheed incident three years ago.

This may be due to the negative attitude of the ruling Liberal-Democratic Party and the weakness of the opposition parties in clearing up the doubts. That the opposition parties making the inquiry failed to liaise and lacked material on the facts were vividly observed in the resumption of witnesses. It cannot be said that such deficiencies respond to the expectations of the people who seek to know where the political and moral responsibilities lie.

We believe, however, that the Diet's handling of the case in a way is overshadowed by the political stance of Prime Minister Masayoshi Ohira, who has supreme political responsibility. The results of a public opinion poll conducted by the ASAHI SHIMBUN indicate bluntly the people's view of the premier's posture on the suspicions surrounding the introduction of the aircraft.

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According to the survey, 71 percent of those polled replied that they did not believe the prime minister's stance toward clearing up the doubts was "positive." This is much different to the evaluation the people gave of former Prime Minister Takeo Miki in the Lockheed case. We want Premier Ohira to accept this stern reply and, as the supreme leader, renew his determination to clarify the facts and establish political ethics.

That the premier's stance appears negative to the public is probably due to the strong ties he has with former Prime Minister Kakuei Tanaka, the principal in timocracy and money politics as well as the Lockheed scandal.

Also, it may be that the premier, who assumed the post not long ago, is cautious about making statements on the case out of consideration of the political situation, particularly the steering of his own party.

However, we want Prime Minister Ohira to consider the weight and influence of the premiership. Statements by the premier, endorsed by his awareness and determination as a political leader, have the power to change the political situation. The possibility of government probing corruption in the political and business circles in response to the expectations of the people, who in turn depend on the leadership of a prime minister, is a lesson left behind by the Lockheed case.

In the recent Diet resolution to clear up doubts and in the question involving the summoning of witnesses, the premier has respected the "will of the Diet." However, this is a "posture leaving everything up to the Diet," averting political decisions that should be made by a prime minister. The premier should not overlook the people's keen sense to fathom his negative stance.

The results of the public opinion poll cite the cozy relations between political and business circles as the first problem to be investigated. They not only question the political and moral responsibilities of politicians who are under suspicion, but also the political circles which are corrupt structurally. To respond to those voices, various political forces, including the premier, should do their utmost in clearing up the doubts.

We keenly feel the great distance lying between the government and the people when we compare the premier's basic posture and the way various parties are grappling with the case in response to the voices of the people. It is the responsibility of the government first to bridge this gap. Especially, the responsibility of Prime Minister Ohira is extremely heavy.

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GSDF CHIEF SAYS JAPANESE DEFENSE BUILDUP INEVITABLE

Tokyo THE JAPAN TIMES in English 29 Mar 79 p 1

[Text]

Gen. Shigeto Nagano, chief of staff of the Ground Self-Defense Force (GSDF) said in Tokyo Wednesday the radical changes in the situation surrounding Japan in the wake of the Soviet military buildup and Sino-Vietnamese armed conflicts have made it inevitable for Japan to revise its present national defense program in the very near future.

The top GSDF officer, speaking at the Industrial Club of Japan, also said he believes the United States, becoming more preoccupied militarily with the Middle East, would want Japan to improve its defense capabilities in connection with the security of East Asia.

This was the first time that a top officer of Japan's armed forces publicly expressed a view on the need to revise the guideline for the nation's defense buildup program by citing the changes in the international situation.

The guideline, known as the National Defense Program

Outline, adopted by the government in October 1976, has set, among other things, the provisional ceiling of the defense outlay at less than one percent of the gross national product (GNP).

In his speech, Gen. Nagano noted the rapid improvement of Soviet military strength in the Far East in terms of both quality and quantity.

"When the government decided on the National Defense Program Outline in 1976, no one in fact envisioned that the Soviet armed forces would have such a superior capability. For instance, it became relatively difficult to counter this threat (from the Soviet military capability) in Hokkaido with only the four divisions of the GSDF deployed there," he said.

Although he does not see any immediate need to drastically revise the nation's defense buildup guideline, "the changes in situation inevitably call for a mental switchover on our part to revise it in the near future."

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COLUMNIST CALLS FOR INDIRECTLY AIDING PRC MILITARY BUILDUP

Tokyo MAINICHI DAILY NEWS In English 29 Mar 79 p 7

[Econoscope Column by Econobserver: "Is the USSR a Big Power?"]

[Text]

Recently, there has been increasing public attention on national defense. Some trumpet about the threat from the Soviet Union and the poor defense capability of Japan.

The warning may be worth listening to. A study from an economic angle comparing the Soviet Union with Japan and other free economies, however, shows the USSR to be rather small, or at least not as big as it is generally thought to be.

The annual survey of gross national income of the world's countries by the Union Bank of Switzerland shows the 1977 Soviet gross national income at \$708,200 million, short of America's \$1,889,600 million.

The USSR, with a population of 260 million, may have the advantage over the U.S., with a population of 215 million, in a conventional land war.

But the same population that makes a land war more advantageous for the Soviet Union cuts the per-capita national income in the Soviet Union to a third of that in America. The Soviet per-capita national in-

come of \$2,760 is in the same range with that of Singapore (\$2,780) or Hong Kong (\$2,640), and far below the \$3,400 for Italy and Spain.

Sparting a big portion of that none too proud national income for huge military spendings must be taking a big bite out of the Soviet family budgets.

It is popularly said in Europe that the potential of the Warsaw Pact organization to fight conventional wars surpasses that of the NATO countries.

In terms of gross national income, however, the combined total of \$1,100 billion for the U.S., Britain and West Germany is well above the \$1 trillion for the Soviet Union, Poland, East Germany and other Warsaw Pact countries.

If the two military blocs are to continue financing the arms race, the odds are clearly against the Eastern bloc even if the area of competition is limited to Europe.

When the area of economic-military rivalry is enlarged to include Asia, the Japanese presence makes it all the more disadvantageous to the Eastern bloc. At the present exchange rate, Japan's gross national

income is exactly \$1 trillion, well above the Soviet Union's.

It could of course be somewhat unreasonable to apply the exchange rate for trading purposes to gauge the economy as a whole. Still, there is little doubt that the Japanese economy at least stands at a par with that of the Soviet Union.

In per-capita terms, Japan's gross national income is roughly three times the Soviet Union's. If the Japanese are to lower the standard of their living to that of Russians, Japan can easily spare more money for defense purposes than the Soviet Union.

The thought of Japanese economic aid turning up, in the final analysis, as increased defense capability of China should be no small worry for the Soviet Union. It will no doubt intensify the containment of the Soviet Union from both the European and Asian ends.

I will leave the matters of weaponry and troop size to military experts. I have explained the economic involvement in defense matters, hoping that Japanese leaders will not make a wrong choice in setting the country's defense policy.

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ECONOMIC

'AKAHATA' CRITICIZES U.S. PRESSURE ON JAPAN

Tokyo JPS in English 0915 GMT 26 Mar 79 OW

[Text] Tokyo, 26 Mar (JPS)--AKAHATA carried an editorial on 25 March, entitled "U.S. Pressure on Japan and the Ohira Government." The gist of the editorial follows:

"In preparation for the Economic Summit Conference in Tokyo scheduled for late June (the summit conference of advanced countries), the U.S. Government is noticeably increasing its economic demands on Japan.

"We must not pass in silence the alarming contents of the U.S. demand on Japan now being reported... this clearly shows U.S. interferences and intervention into the Japanese economy. The U.S. demands on Japan do not simply remain on the level of open market for individual goods, but include a complete liberalization of the financial, industrial products, and agricultural markets, and for increases in the shares of the military costs and the overseas economic 'cooperation' costs.

"If the Japanese Government honors these demands, it will inevitably yield serious and negative influences on Japan's economy and the people's living," uncomparable to the past blows dealt on the farmers and small and medium sized producers by the liberalization of markets for individual goods.

"Moreover, the U.S. Government is strongly pressing the Japanese Government to approve its unjustifiable demands, saying that the economic 'adjustment' between Japan and the U.S. is the prerequisite for a 'success' of the Tokyo summit.

"Needless to say the serious crisis of world capitalism lies behind the escalation of the U.S. demands on Japan. But at present, the Ohira Government gives weight to a 'success' in the Tokyo summit, following the simultaneous local elections, in the political timetable, and dissolve the lower house by autumn to proclaim a general election on the strength of the 'success', being placed in a predicament to yield substantially to the unjustifiable U.S. demands. [Graf as received]

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"The Ohira Government is actually showing a positive attitude toward the recent proposal by U.S. Ambassador to Japan Mike Mansfield for setting up a 'Japan-U.S. Joint Research Group', a permanent institution for interferences in Japan, an institution for surveillance over Japan.

"Today...the struggle for the establishment of the independent economic diplomacy and economic sovereignty, and for a complete change in the Japanese economy for the preferential service to the people has become more important."

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ECONOMIC

'YOMUIRI' VIEWS EUROPEAN MONETARY SYSTEM 'WITH ALARM'

Tokyo THE DAILY 'YOMUIRI' in English 21 Mar 79 p 2 OW

[Editorial: "EMS Cause for Alarm"]

[Text] We cannot help but view with alarm the establishment of the European Monetary Sytem (EMS) which seems to be a step toward forming a much stronger and probably more exclusive European Communities (EC) economic bloc.

In March 1973, the EC created the so-called "snake," a joint monetary system. Under this system, the exchange rates among member countries were fixed while their rates were allowed to float against the dollar. The EC's motive then was to maintain stability among its exchange rates.

However, Britain and Italy did not participate and France departed from the snake. It, therefore, evolved into what amounted to a West German mark bloc.

Given the differences in the rate of inflation among nations, it is extremely difficult to fix foreign exchange rates. This the EC most certainly knows but nevertheless the EMS, which binds the countries even more closely together than under the snake, was inaugurated.

Will of Paris, Bonn

Undeniably it was the political will of West Germany and France that brought about the EMS. They are believed to have lost all hope for the dollar, which has been falling in value over the years, and wanted to create a unified monetary system for the EC.

However, the real intention of France and West Germany is not the formation of a stable currency bloc but to strengthen the EC and an economic bloc. And this seems to be in line with the strong body of opinion within the EC to return to its original spirit and form a stronger trading bloc and a bloc for long-term investment.

The EC insists that the birth of the EMS will not make it closed or exclusive. However, we cannot believe that the EC, while taking measures to bind its members more closely together, will make itself more open to the outside world.

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Japan an EC Target

During the Tokyo round, the EC strongly demanded the legalization of selective import discrimination to protect any EC member from a sharp increase in imports from any country. The EC's main targets are Japan and the semi-developed nations. Although the EC will probably not get its way because of strong opposition, it says it will interpret existing rules to enforce selective import restrictions.

It should also be noted that French President Valery Giscard d'Estaing proposed a conference of EC, the Arab World and Africa when the EMS was approved. The other EC nations agreed. The EC already has concluded the Lome Convention with 56 developing countries in Asia, the Caribbean and the Pacific to strengthen economic ties.

It is apparent that the EC is bent on forming a large trading bloc with itself as the nucleus. Under the circumstances, it might be wise for Japan to consider forming an economic bloc of its own.

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ECONOMIC

TOP ECONOMIC PLANNER HINTS AT POLICY SWITCH

Tokyo MAINICHI DAILY NEWS in English 24 Mar 79 p 5 OW

[Text] Japan's top national economic planner suggested on 23 March the possibility of a switch in Japan's basic economic policy after September, depending on international oil price developments.

Tokusaburo Kosaka, state minister and director-general of the Economic Planning Agency, told an upper house budget committee session that "if the government has to make some change in its basic economic policy lines, I presume it would be sometime during the second half of this year." He meant the October-March half of the coming fiscal year 1979.

He identified future international oil prices as the biggest factor that might cause a policy switch.

Kosaka said the government wants to keep national economic growth steady throughout the coming fiscal year, as it has been since the last quarter of 1978. But he admitted the need for an adaptable way of applying the national budget for fiscal 1979 according to economic conditions.

Whether the government will concentrate most of its annual public works spending on the first half of fiscal 1979 to keep stimulating business "will be studied after the budget is cleared by the national Diet," he added.

Kosaka said he did not see any need for the moment to make any radical change in the government's banking policy but that this depended on domestic price developments.

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SCHOLAR EXAMINES CORRUPTION IN JAPANESE INDUSTRIAL SOCIETY

Tokyo ASAHI JANARU in Japanese 23 Feb 79 pp 22-26

[Article by Tadanori Nishiyama, professor of Economics, Musashine University: "Lockheed and Grumman Incidents Expose Decay Permeating Financial and Industrial Establishments"]

[Text] The Grumman incident which followed on the heels of the Lockheed scandal brought the rottenness of our financial institutions into close focus. These cases involved both the U.S. and Japan, but each was brought to light by the Americans leading to the discovery of Japanese involvement.

The Lockheed matter was uncovered by the certified public accountant (CPA) who was the company's comptroller and the Grumman case by the Securities and Exchange Commission (SEC) of the U.S. Although the Grumman case has not advanced to the point of detailed clarification, in the Lockheed case, at least, there is ample evidence of the effectiveness of CPAs in the U.S.

In contrast to that, in Japan the CPA who audited the books of Marubeni and All Nippon Airways certified that the firms' books were in order. Evidence of ineptness of audits in Japan was pointed up in the Fuji Sash Co case last year. The CPAs who audited those books over many years all certified the extensively padded books as being "in order." It was pointed out that the CPAs involved were in a vulnerable position since their compensation for the work came from the company. (Sanji Muto of the House of Representatives made reference to this in a statement to the Lower House Appropriations Committee hearing--reported in the evening edition of ASAHI SHINBUN on 1 February 1979.)

CPA Who Points Out Irregularities Gets Fired

However, the situation should be no different than that in America, where, if the CPA finds fraudulent irregularities in a company's books, the president and other officers of the company get the ax. In a similar situation in Japan, the CPA finds that he's the one out of a job. It must be added, however, that in the 30-some years that Japan has had the CPA system, there hasn't been a single "fraudulent irregularity" decision handed down. It is alleged that the reason for that is the CPA's fear of losing his job.

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In the case of Fuji Sash, the Public Prosecutor's Office, and the district tax office were responsible for finding the irregularities. In other words, since the scandal was brought to light by others rather than the CPAs, the CPAs became the scapegoats. Reviewing such incidents, one wonders why we have a CPA system.

Though both the U.S. and Japan are capitalistic countries and have similar regulatory controls (Japanese regulatory controls were modeled after those of the U.S.), why is it that the controls seem to have opposite effects? We believe that scholars in the fields of economics, management, accounting, commerce, and social studies have an obligation to supply an answer. Some people (particularly among foreigners) say that "the Japanese are irreligious and therefore have lower moral standards." Others blame it on the so-called "Japan-type management." We cannot completely deny these charges.

But these are insufficient explanations. The situation isn't merely a matter of moods and impressions. That people are moved by damages and benefits, profits and losses is the same whether they are Japanese, Europeans or Americans; we do not believe that our moral or ethical standards are beneath those of the others. Neither do we believe that the degree of conscientiousness of the CPA in his work nor "Japan-type management" is the whole answer to the problem. We feel this way because we must get answers to such questions as why conscientiousness should be lacking and why there should be such a thing as "Japan-type management."

It is said that the board of directors does not control our country's stock companies. The system itself is a part of the commerce revision regulations imported from the U.S. after the war. In spite of the fact that the board nominally should have the power to appoint, discharge, and supervise the president and others in the operational sector, in Japan's version, it is subordinated to the president of the company. In America the board, which represents capital, can discharge the chief executive officer; in Japan it is the executive who can fire board members. Why should it be this way?

The "takeover bid" (TOB) is a mechanism which publicly announces that a company's stock will be bought in an attempt to take over that company; it is a procedure widely practiced in the U.S. In Japan, TOB is viewed as a despicable act bordering on the criminal, and is practically never attempted. Takeover mergers are supposed to be the "epitome of capitalism," but what's happened?

In Japan, there are professional "stockholders' annual general meeting attenders" who make a point of using the meetings to disrupt the profit-making procedures of a company. These normal "enemies of management" exist in America, too. But in Japan, we have these strong-arm men who work in cahoots with management to intimidate the stockholders, or "annual meeting attenders who are useful to management." They support management measures at the annual meetings and push them through at a fast clip by the use of intimidation. If the professional gangsters were limited to the former type--management disrupters--they could be quickly quelled; but to uproot

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the latter type--management collaborators--is not easy for the simple reason that the company's management supports them.

This type of management-racketeer collaboration is unique to Japan. What gave them a foothold?

Criticizing CPAs Renders No Solution

The academicians in social studies have a duty to respond. No doubt there are many well-founded causes but at this time we wish to point out one--society's Structural base."

In America, under the concept of separation of capital and management, capital controls management (controls changes in management personnel). The fact of the matter is that in Japan there is no capital entity; capital is not a part of a company's structure. The giant enterprises operate on a "management control" basis which, even though it was a concept founded in America, has been made into a general practice in Japan. In this sense, Japan is the world's forerunner in putting this concept into practice.

If the CPA should uncover irregularities in a company's books where a capital entity exists, as it does in America, the president and other management figures would naturally get the ax (since management had misused monies belonging to the capital entity). But where the capital entity is not part of the company, as in Japan, there is no one to wield the ax. Since management alone has authority, it naturally follows that it is the CPA who gets it in the neck. Since the Japanese CPA doesn't want to find himself out of a job he finds no "irregularities"; it's just a matter of livelihood to the CPA. We must, therefore, recognize the fact that the solution cannot be found by considering the situation merely as a matter of CPA morality, but rather as a "structural" problem.

The same pertains to the matter of directors' meetings. If, as in the U.S., the board members or their proxies represent capital, the board meeting will function and bear fruit. Regardless of how outward appearances resemble those of the American counterparts, when the structure and the society in which it exists differ, the same regulatory measures will not bring about the same results. The stock company regulations now in effect are founded on the premise that a capital entity exists, so when there is no such entity the whole structure, including setting up regulations--stock control regulations, capitalization regulations, stockholders' meeting regulations, directors' meeting regulations, accounting regulations, auditing regulations--and all other matters pertaining to the functions of conducting business, becomes ineffective.

The same holds for the problem of racketeering in the stockholders' general meeting. If a capital entity exists, it would undoubtedly put a stop to the tie-in between management and the racketeers aimed at personal gains, so in that aspect, at least, the racketeers would be ousted. This is the

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very reason there are so few of them in Europe and America. The reason there are no TOBs in Japan is because management fears that through a takeover a capital entity with "controlling stockholdings" will be thrust on it. In a capitalistic society, a company should belong to the stockholders and there should be freedom in stock transactions making it possible for anyone to become a stockholder and to control a company. The stockholder should be the real owner of the company and management should be his representative in the field of operations. Therefore, as the annual meeting racketeer is an unwanted parasite to the capitalistic system, takeover rights should be the star of capitalism. The fact that Japanese management, aided by the meetings racketeer, shows its unabashed hatred for takeovers and TOBs is living proof that it sees the company, which should not be its possession, as its own personal property.

Melding Of Government and Industry Completes "Decay"

In the social structure in which the "capital entity" is absent (capitalists do exist in medium and small enterprises but they do not affect the whole society to the same extent as the giants) other symptoms of sickness are becoming apparent.

If a bank in America should suffer a large loss through making a bad loan, management would get the ax as a matter of course, but in Japan, there is no capital entity to wield this power.

Poor company earnings is sufficient cause for replacement of management in America, but in Japan it could, paradoxically, become a reason for keeping the management on so that the traditional "retirement gala" can be prepared. To explain away these as being mere "Japan-type management" is insufficient because the basic impediment is the incompatibility of our system with the basic philosophy of capitalism. It is a phenomenon which can be understood only when one accepts the fact that there is no capital entity and that management control holds the reins.

Admittedly, capitalist control does not prevent environmental pollution, but it is considerably accelerated under management control. The fact that Japan has become the world's leader in environmental pollution cannot be divorced from its socio-industrial structure.

Zen Nikku [All Nippon Airways], Marubeni, Nissho-Iwai and others who are the central figures in the Lockheed and Grumman scandals are all examples of no capital entity, pure management controlled giants. We must view them as models of the Japanese "structures of decay." The government which has control and regulatory agencies is the only entity which could check the giants of industry in the management control system practiced in Japan. So with the melding of government and industry, decay can thrive unchecked. The Lockheed and Grumman incidents are the offspring of this uniquely Japanese structure, and these scandals are only the tip of the iceberg.

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The giant industries of Japan are capitalized almost wholly by outsiders' money, i.e., borrowed money. There are many reasons for this, but the main factor is that it is cheaper to pay the interest than to raise money through sales of stock in its own company. The Japanese economy achieved great growth by using other people's money. Basically, in a publicly owned stock company, dividends should represent return on investment and treatment of interest as cost is contrary to the capitalistic philosophy.

Adhering to the capitalistic philosophy, other countries do not conduct their business with outsiders' money. It should be noted that in America and West Germany capitalization is handled through stock transacting credit companies.

Most of the capital for the industrial giants of Japan is borrowed from the big banks. Since the big banks have little money of their own in their institutions (capital raised through stock sales and accumulated profits does not equal even 3 percent of their total capitalization), it is safe to say that the general public's deposits form the source of these funds. In modern-day Japan, the suppliers of capital for our giant industries are not capitalists as in America, but the general public.

Under such a structural concept, the "philosophy of capitalism" as practiced by other capitalistic countries cannot apply to Japan. Industries, particularly the giants, are in reality mammoth "profit cooperatives," "living style cooperatives," and "fate cooperatives," all of which contain both management and employees alike, and as a result, the "philosophy of organization" and "philosophy of control" have to be given precedence over the philosophy of capitalism.

Japan's Industries Spend More On Expense Accounts Than On Dividends

With the acceptance of this philosophy one can understand why stock dividends are placed in the cost category. To the capital investor, dividends are a distribution of profits, but to "management which is in the worker category," they are simply costs of operation and therefore should be kept to a minimum. This is in direct contrast to American management, which tries to maximize them because if it doesn't, it incurs the displeasure of the capital investor. But, as pointed out earlier, the capital investor element is missing in Japan.

Some interesting figures come to mind: According to statistics compiled by the National Tax Administration Agency, total dividends distributed by Japanese companies in 1975 amounted to 1.520 trillion yen; during the same period, expense account expenses for all the companies totaled 2.030 trillion yen. (Refer to NIHON KEIZAI SHINBUNSHA's 1978 publication entitled "Management in the Industrial Conglomerate Era" by Hiroshi Okumura for details.) This should be a mind-boggling situation; nothing even closely resembling it can be found in America or in other capitalistic countries. There is, of course, the chance that tax laws peculiar to Japan play a role in this, but when the Japanese industrial structure is viewed in the light

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of its being a cooperative pyramid of workers with management forming its tip and which shares the wealth with all the workers under it, the situation should not be overly surprising, and it is a natural developmental sequence. In America, where industry is under the control of capital investors, dividends are seen as distribution of profits and expense account expenses are justly listed as cost (that is capitalism). In Japan, where management is in control, the situation is reversed: dividends distributed to stockholders are listed as cost and expense account monies which are put to personal use are considered to be distribution of profits. This is what could be classed as the "unusual nature of the structure" of Japanese industry.

Rate of profit is the fundamental consideration in capitalism, so in America, for example, management which is unable to increase the rate of profit (and hence the dividend rate) will fail; in Japan, the figures showing total sales are given precedence over the rate of profit. This order of priority which is peculiar to Japan is a reflection of our unusual structure.

It has been pointed out that in comparison with European and American industries, the difference in the pay scales between blue and white collar workers is considerably narrower in Japan; actually, the differences in the pay scales among blue collar workers in large enterprises and medium to small ones, and between organized and unorganized workers, are greater than that between their average and the white collar workers.

Organized labor is apt to be more cooperative than antagonistic toward the company. Frequently, the chairman of a labor union committee has an authoritative voice in the company's personnel matters and it is not unusual for a person to become a union officer as a stepping stone to joining the management of that company. In other words, it can be used as a career ladder to achieve management status. This phenomenon, which has no counterpart in Europe or America, is an effect of the breakup of "class structure" in Japan.

The Kankoro [National Council of Government and Public Workers' Unions] of Japan, however, whether or not because it considers itself the "Boss of the Rising Sun" is, unlike unions in the private industry sector, very active. The Kokuro [National Railway Workers' Unions and the Doro [National Railway Locomotive Engineers' Union] have been very warlike in their disputes with the National Railways. The riots at Akabane station in Tokyo are an example of this (on this point see DIAMONDSHA's 1978 publication "European Sick Call" by Paul Bonnet). The failure of the merger of Sumitomo Bank and Kansai Sogo Bank last year was due to the opposition of the employees of the Kansai Sogo Bank. This is uniquely Japanese and couldn't possibly happen in America. It was a particularly strange development, since the Sumitomo Bank, which is at the center of the Sumitomo group of interests, owned almost 50 percent of the Kansai Sogo's stock and the latter was in reality a subsidiary of Sumitomo. Nevertheless, the merger failed to materialize because of employee opposition. This clashes with "the theory of capitalism" and is an occurrence which Europeans and Americans must find difficult to understand.

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Control Principle Built On Crumbling "Logic Of Capitalism"

Galbraith wrote on the destruction of "market logic," but in Japan the "logic of capitalism" has eroded. It is questionable whether such a society can be classed in the capitalism category.

If we are to assume that all societies which are not socialistic are capitalistic, then Japan could be called capitalistic, but such negative capitalism is a meaningless entity which has no substance to it. Not only would the definition be useless in explaining social problems, but it could not be used as a tool to solve them. We are of the opinion that we should recognize the fact that capitalism has fallen in Japan and that we now have a society which is neither capitalistic nor socialistic (I am provisionally calling it a "controllism society," but I must stress that this is merely temporary terminology).

Under that philosophy, "organizational logic" and "control logic" replace "market logic" and "capital logic" as the dominant factors. In a capitalistic society, pursuit of profits is the driving force and control exists merely in its behalf; in a controllism society, such as exists in modern-day Japan, the objective of industry is the maintenance of organization, i.e., control, and the pursuit of profit becomes the tool to achieve it. By making "control a self-serving goal", that itself becomes a hindrance to controllism and the source of various forms of decay. Capitalism and controllism are both names for social sickness and just as they go under different names, they have different causes. What would happen if a person suffering from pneumonia was misdiagnosed as having liver trouble and was treated for the latter. It is a frightening thought. The Japanese structure has advanced to a point where it can no longer be described as being capitalistic in the old sense of the word.

An enterprise built on capital investment premised on the separation of capital and management is now the exception in Japan. The coexistence of the giants in which management is part of the working force and which uses the general public's money for capital and the medium to small enterprises which are controlled by capital investors is a phenomenon peculiar to Japan. But the medium to small enterprises are in no position to compete with the industrial giants.

If one states that there are no capital investor enterprises in Japan there undoubtedly will be those who will refute it by naming Konosuke Matsushita as an example. The fact is, however, that Mr Matsushita could be classed as a capital investor only while Matsushita Denki [Matsushita Electric Industrial Co] was in the medium to small enterprise category. Mr Matsushita's stockholdings were 60 percent of the total in 1943, 45 percent in 1949, and only 7 percent in 1961. In other words, his stockholdings have been in inverse proportion to the rate of growth of the company.

The situation is often brought up as a living example of how ownership of 7 percent of the stock can control a company. The claim is misleading. The

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claim that it is holding 7 percent of the stock that enables Mr Matsushita to control the company is nonsensical; with a stockholding so small that it approaches zero, the chief executive officer of the mammoth Hitachi, Ltd, has control of that company. The fact that has to be recognized is that Mr Matsushita's controlling authority does not stem from his capital holding of 7 percent, but from being its management. Putting it another way, the more success Mr Matsushita gained in management, his authority derived from capital holdings had to diminish. This fall of Konosuke Matsushita, capitalist, is the portent of the fall of capitalism in Japan.

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RATE OF INCREASE IN POSTAL SAVINGS SLACKENS

Tokyo NIHON KEIZAI SHINBUN in Japanese 13 Mar 79 p 4

[Text] A dark cloud has begun to hang over postal savings which have continued a high level increase. According to the Ministry of Posts and Telecommunications' forecast, the postal savings balance for the end of this 1978 fiscal year (the end of March 1979) will be a little under 44.5 trillion yen; it will be limited to an increase of about 17 percent over last year. That is the lowest increase in a sixteen year period from 1962. When we look at the amount of increase, it is certain that fiscal year 1978 will be lower than last year's amount of increase for the first time in twenty years. The Finance Ministry sees the sluggishness of postal savings to be the result of private banks, with city banks at the center, beginning to emphasize the individual customer and devising a "roll-back" policy toward postal savings. Likewise, means for private financial institutions to raise funds will be strengthened, beginning with certificates of deposit coming into existence this spring, and with the strong probability that there will be new kinds of personal banking accounts (compound interest time deposit accounts). On account of this, we will have a situation where accounts in private banks will exceed the increase in postal savings within the year.

Amount of Increase Less Than Last Year

According to the Ministry of Posts and Telecommunications' conclusions, the current postal savings balance at the end of February 1979 was 44 trillion 274.5 billion yen. They are anticipating an additional increase of about 200 billion yen in March. But, with this, when you compare the postal savings balance at the end of fiscal year 1978 with the previous year, there will be an increase of about 17 percent, at best. (Ministry of Posts and Telecommunications) Up until now, postal savings have continued to consistently have a high annual rate of increase of 25 percent (based on balance). There has not been a 17 percent increase since back in 1961 and 1962.

This means the postal savings system has not increased much in fiscal 1978; and it is expected that the increase amount will decline about 3 percent compared to last year's increase. This is the first time since 1958 that the amount of increase in postal savings, which has kept up a "high rate of growth," will be less than the previous year.

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Meanwhile, as for the account balance for private financial institutions, national banks, such as city banks and district banks, increased 12.6 percent this year over last year, as of the end of January. Mutual banks increased 14.5 percent; credit banks, 12.6 percent. All of them exceeded the previous year's increase rate by two or three points. They have not caught up with the postal savings balance rate of increase, but they are characterized by an upward movement in the rate of growth, in contrast to postal savings which have slackened.

On account of this, there is a strongly held view about the sluggishness of postal savings, that customers who used to turn to postal savings are gradually shifting to banks in proportion to the banks' emphasis on service to the individual. (Finance Ministry source)

In the last year or two, every bank has changed from a position of placing too much importance on business enterprises to a position of considering the individual important. They have set out to introduce automatic payroll deposits and to extend the hours of operation for automatic cash dispensers. They are emphasizing loans to individuals who are backed up by bank accounts. It is said that their efforts at exploiting the personal market are linked to their "roll-back" policy toward postal savings.

Moreover, this year, certificates of deposit in order to bring in short term funds from businesses will appear as early as April. As a general rule, any bank can issue them, and it is very profitable for city banks to bring in corporate accounts. Also, concerning compound interest time deposit accounts, which resemble the post office's limited amount savings accounts, that are said to be the trump card in the "postal savings' offensive," present negotiations have advanced to a point of introducing them within this year.

Against this, postal savings are emphasizing personal loans by expanding the lending limitation amount of the "yuyu" loan (an increase from 500,000 yen to 700,000 yen per person beginning 1979). And meanwhile, they have started full-scale automatic payroll deposits, and they are studying the introduction of automatic cash dispensers in the near future. But this system will not be ready immediately. So it seems that the banks' "roll-back" policy toward postal savings is succeeding for the time being. The situation seems to be that the rate of increase of private banks and of postal savings will be reversed, based on a comparison of this year's balance sheets.

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